Glossary

Base Currency
In relation to Shares of any Fund, the currency indicated on page 2.

BlackRock Group
The BlackRock group of companies, the ultimate holding company of which is BlackRock, Inc.

Business Day
In relation to Shares of any Fund, any day normally treated as a business day in Luxembourg for banks and the Luxembourg stock exchange and such other days as the Directors may decide.

CDSC
Contingent deferred sales charge.

Dealing Currency
The currency or currencies in which applicants may currently subscribe for the Shares of any Fund as indicated on page 2. Other additional Dealing Currencies may be introduced at the Directors' discretion. Confirmation of the further additional Dealing Currencies and the date of their availability can then be obtained from the registered office of the Company and from the Investor Service Centre.

Dealing Day
In relation to Shares of any Fund, any Business Day (other than one falling within a period of suspension).

Directors
The Directors of the Company.

Distributing Funds and Distributing Shares
Those Funds and Shares for which dividends are currently declared as indicated on page 2. Dividends may be declared on Distributing Shares of other Funds and in other currencies at the Directors' discretion. Confirmation of the additional Funds, Share Classes and Currencies on which dividends may be declared is available from the registered office of the Company and from the Investor Service Centre.

Funds
The funds of the Company described in this Prospectus.

Hedged Share Classes
Details of those Share Classes of those Funds for which hedged shares are currently available are available from the registered office of the Company and from the Investor Service Centre. Additional Hedged Share Classes may, at the Directors' discretion, be made available in other Funds and in other currencies. Confirmation of the other Funds and currencies in which the Hedged Share Classes may be available and the date of their launch can then be obtained from the registered office of the Company and from the Investor Service Centre.

Investment Manager
BlackRock (Channel Islands) Limited acting either in its capacity as Investment Manager or in its capacity as Principal Distributor as further described in Appendix C. References to distributors may include the Investment Manager in its capacity as Principal Distributor.

Investor Service Centre
BlackRock Investment Management (UK) Limited (or such other BlackRock Group company that may perform such functions from time to time) for dealing and investor servicing functions.

Management Company
BlackRock (Luxembourg) S.A., a Luxembourg société anonyme authorised as a management company under the law of 20 December 2002.

Merrill Lynch
Merrill Lynch International & Co., Inc. or one of its associated companies (other than the Investment Manager or the Investment Advisers).

ML Group
The Merrill Lynch group of companies, the ultimate holding company of which is Merrill Lynch & Co., Inc.

Net Asset Value
In relation to a Fund or a Share (of any Class), the amount determined in accordance with the provisions described in paragraphs 11 to 16 of Appendix B. The Net Asset Value of a Fund may be adjusted in accordance with paragraph 16(c) of Appendix B.

PNC Group
The PNC group of companies, of which The PNC Financial Services Group, Inc. is the ultimate holding company.

Prospectus
This document.

Share
A share in the capital of the Company, as described in this Prospectus.

Share Class
The class of share in each case of no par value representing the capital of the Company and linked to a particular Fund, as described on page 20.

Subsidiary
Merrill Lynch India Equities Fund (Mauritius) Limited, a whollyowned subsidiary of the Company, incorporated as a private company limited by shares through which the India Fund will, in normal market conditions, invest in securities.

UK Distributor Status Funds and UK Distributor Status Shares
Those Funds which currently offer UK Distributor Status on their Shares as at the date of this Prospectus are available from the registered office of the Company and from the Investor Service Centre. The Company may, at the Directors' discretion, apply for UK Distributor Status for Shares of other Funds and for other Share Classes or Dealing Currencies of these Funds and other Funds. Confirmation of the additional Funds, Share Classes and Dealing Currencies in respect of which the Company may apply for UK Distributor Status is available from the registered office of the Company and from the Investor Service Centre.

Investment Management of Funds

Management

The Directors are responsible for the overall investment policy of the Company.

BlackRock (Luxembourg) S.A. has been appointed by the Company to act as its management company. The Management Company is authorised to act as a fund management company in accordance with Chapter 13 of the law of 20 December 2002.

The Company has signed a management company agreement (the "Management Company Agreement") with the Management Company. Under this agreement, the Management Company is entrusted with the day-to-day management of the Company, with responsibility for performing directly or by way of delegation all operational functions relating to the Company's investment management, administration, and the marketing of the Funds.

In agreement with the Company, the Management Company has decided to delegate several of its functions as is further described in this Prospectus.

The directors of the Management Company are:

Frank P Le Feuvre
Managing Director,
BlackRock (Channel Islands) Limited
Forum House, Grenville Street, St. Helier, Jersey JE4 8RL, Channel Islands

James Stratford
Head of Compliance EMEA Pacific
BlackRock Investment Management (UK) Limited
33 King William Street, London EC4R 9AS, UK

Geoffrey Radcliffe
Director and General Manager
BlackRock (Luxembourg) S.A.
6D route de Trèves, L-2633 Senningerberg, Luxembourg

BlackRock (Luxembourg) S.A. is a wholly owned subsidiary within the BlackRock Group. It is regulated by the Commission de Surveillance du Secteur Financier.

The Management Company has delegated its investment management functions to the Investment Manager, who in turn has appointed the Investment Advisers. The Investment Advisers provide advice and management in the areas of stock and sector selection and strategic allocation. BlackRock Investment Management (UK) Limited, has sub-delegated some of these functions to BlackRock Japan Co., Ltd. and BlackRock Financial Management, Inc. has sub-delegated some of these functions to BlackRock International, Ltd., BlackRock Investment Management (Australia) Limited BlackRock Investment Management (UK) Limited and BlackRock Japan Co., Ltd. Notwithstanding the appointment of the Investment Advisers, the Investment Manager accepts full responsibility to the Management Company and to the Company for all investment transactions, subject to the direction of the Management Company's Directors. BlackRock Investment Management (UK) Limited also acts as the Investment Manager to the Subsidiary.

Investment Advisers

BlackRock Investment Management (UK) Limited is the principal operating subsidiary of the BlackRock Group outside the US. It is an indirect subsidiary of BlackRock Inc.

It is regulated by the Financial Services Authority ("FSA") but the Company will not be a customer of BlackRock Investment Management (UK) Limited for the purposes of the FSA Rules and will accordingly not directly benefit from the protection of those Rules.

BlackRock Investment Management (UK) Limited forms part of the BlackRock Group. The BlackRock Group currently employs over 4000 staff who provide investment management services internationally for institutional, retail and private clients. The BlackRock Group has in the region of US$ 1 trillion of assets under management and is represented in 18 countries.

BlackRock Financial Management, Inc., BlackRock International, Ltd., and BlackRock Investment Management, LLC are regulated by the Securities and Exchange Commission. They are indirect operating subsidiaries of BlackRock, Inc., the principal shareholders of which are Merrill Lynch & Co., Inc. and The PNC Bank N.A. both of which are US public companies. As of 30 June 2006 BlackRock, Inc. and its subsidiaries managed $464 billion in client assets.

Special Risk Considerations

Investors must read these Special Risk Considerations before investing in any of the Company's Funds.

This section contains explanations of some of the risks that apply to the Funds. Not all risks apply to all Funds and the following table sets out the risks that, in the opinion of the Investment Manager, could have significant impact to the overall risk of the portfolio. Investors should be aware that other risks may also be relevant to the Funds from time to time.

Special Risk Considerations

No.	FUND	Emerging Markets including sovereign debt & restrictions on foreign investments	Fixed Income Transferable Securities			
			Investment Grade	Non-Investment Grade	Capital Securities (Investment and Non Investment Grade)	Distressed Securities
1	Asian Dragon Fund	X				
2	Asian Tiger Bond Fund	X	X	X	X	X
3	Asia-Pacific Real Estate Securities Fund	X	X	X		X
4	BRIC Fund	X				
5	Conservative Allocation Fund (Euro)		X	X	X	
6	Conservative Allocation Fund (US Dollar)		X	X		
7	Continental European Flexible Fund	X				
8	Dynamic Reserve Fund		X	X		
9	Emerging Europe Fund	X				
10	Emerging Markets Bond Fund	X	X	X	X	X
11	Emerging Markets Fund	X				
12	Euro Bond Fund		X	X	X	
13	Euro Corporate Bond Fund	X	X	X		
14	Euro Reserve Fund		X		X	
15	Euro Short Duration Bond Fund		X	X	X	
16	Euro-Markets Fund					
17	European Focus Fund	X				
18	European Fund					
19	European Growth Fund	X				
20	European Opportunities Fund					
21	European Real Estate Securities Fund	X	X	X		X
22	European Value Fund					
23	Fixed Income Global Opportunities Fund	X	X	X	X	X
24	Global Allocation Fund	X	X	X	X	X
25	Global Bond Fund (Euro)		X		X	
26	Global Bond Fund (US Dollar)		X		X	
27	Global Capital Securities Absolute Return Fund		X	X	X	
28	Global Dynamic Equity Fund	X				
29	Global Enhanced Equity Yield Fund	X				
30	Global Equity Fund					
31	Global Focus Fund					
32	Global Fundamental Value Fund					
33	Global Growth Fund	X				
34	Global High Yield Bond Fund (Euro)		X	X	X	X
35	Global Opportunities Fund					
36	Global Real Estate Securities Focus Fund	X	X	X		X
37	Global Real Estate Securities Fund	X	X	X		X
38	Global SmallCap Fund	X				
39	Greater China Fund	X				
40	India Fund	X				
41	Japan Focus Fund					
42	Japan Fund					
43	Japan Opportunities Fund					
44	Japan Value Fund					
45	Latin American Fund	X				
46	Local Emerging Markets Short Duration Bond Fund	X	X	X		X
47	New Energy Fund	X				
48	North American Real Estate Securities Fund	X	X	X		X
49	Pacific Equity Fund	X				
50	Sterling Reserve Fund		X		X	
51	Strategic Allocation Fund (Euro)		X	X	X	
52	Strategic Allocation Fund (US Dollar)		X	X	X	
53	Thailand Fund	X				
54	UK Focus Fund					
55	United Kingdom Fund					
56	US Basic Value Fund					
57	US Dollar Core Bond Fund		X	X	X	
58	US Dollar High Yield Bond Fund		X	X	X	X
59	US Dollar Low Duration Bond Fund		X	X	X	
60	US Dollar Reserve Fund		X		X	
61	US Flexible Equity Fund					
62	US Focused Value Fund					
63	US Government Mortgage Fund		X		X	
64	US Growth Fund					
65	US Opportunities Fund					
66	US SmallCap Value Fund					
67	World Bond Fund		X	X	X	
68	World Energy Fund	X				
69	World Financials Fund	X				
70	World Gold Fund	X				
71	World Healthscience Fund	X				
72	World Income Fund	X	X	X	X	X
73	World Mining Fund	X				
74	World Technology Fund	X		X	X	

Special Risk Considerations

No.	FUND	Small Cap Companies	Specific Sectors	Delayed Delivery Transactions	Derivatives - General	Derivatives- Bond, Mixed Growth and certain Equity Funds	Risk to Capital Growth
1	Asian Dragon Fund	X			X		
2	Asian Tiger Bond Fund					X	
3	Asia-Pacific Real Estate Securities Fund	X	X			X	
4	BRIC Fund	X			X		
5	Conservative Allocation Fund (Euro)					X	
6	Conservative Allocation Fund (US Dollar)					X	
7	Continental European Flexible Fund	X			X		
8	Dynamic Reserve Fund					X	
9	Emerging Europe Fund	X			X		
10	Emerging Markets Bond Fund					X	X
11	Emerging Markets Fund	X			X		
12	Euro Bond Fund					X	
13	Euro Corporate Bond Fund					X	
14	Euro Reserve Fund					X	
15	Euro Short Duration Bond Fund					X	
16	Euro-Markets Fund				X		
17	European Focus Fund	X			X		
18	European Fund				X		
19	European Growth Fund	X			X		
20	European Opportunities Fund	X			X		
21	European Real Estate Securities Fund	X	X			X	
22	European Value Fund				X		
23	Fixed Income Global Opportunities Fund					X	
24	Global Allocation Fund	X				X	
25	Global Bond Fund (Euro)			X		X	
26	Global Bond Fund (US Dollar)			X		X	
27	Global Capital Securities Absolute Return Fund					X	
28	Global Dynamic Equity Fund	X				X	
29	Global Enhanced Equity Yield Fund	X				X	X
30	Global Equity Fund				X		
31	Global Focus Fund				X		
32	Global Fundamental Value Fund	X			X		
33	Global Growth Fund	X			X		
34	Global High Yield Bond Fund (Euro)			X		X	
35	Global Opportunities Fund	X			X		
36	Global Real Estate Securities Focus Fund	X	X			X	
37	Global Real Estate Securities Fund	X	X			X	
38	Global SmallCap Fund	X			X		
39	Greater China Fund	X			X		
40	India Fund	X			X		
41	Japan Focus Fund	X			X		
42	Japan Fund				X		
43	Japan Opportunities Fund	X			X		
44	Japan Value Fund	X			X		
45	Latin American Fund		X		X		
46	Local Emerging Markets Short Duration Bond Fund					X	X
47	New Energy Fund	X	X		X		
48	North American Real Estate Securities Fund	X	X			X	
49	Pacific Equity Fund	X			X		
50	Sterling Reserve Fund					X	
51	Strategic Allocation Fund (Euro)					X	
52	Strategic Allocation Fund (US Dollar)					X	
53	Thailand Fund	X			X		
54	UK Focus Fund	X			X		
55	United Kingdom Fund	X			X		
56	US Basic Value Fund				X		
57	US Dollar Core Bond Fund			X		X	
58	US Dollar High Yield Bond Fund			X		X	
59	US Dollar Low Duration Bond Fund			X		X	
60	US Dollar Reserve Fund					X	
61	US Flexible Equity Fund				X		
62	US Focused Value Fund	X			X		
63	US Government Mortgage Fund			X		X	X
64	US Growth Fund				X		
65	US Opportunities Fund	X			X		
66	US SmallCap Value Fund	X			X		
67	World Bond Fund			X		X	
68	World Energy Fund	X	X		X		
69	World Financials Fund	X	X		X		
70	World Gold Fund	X	X		X		
71	World Healthscience Fund	X	X		X		
72	World Income Fund					X	X
73	World Mining Fund	X	X		X		
74	World Technology Fund	X	X		X		

General

There can be no assurance that the investment objectives of each Fund will be achieved. Also, past performance is no guide to future performance, and the value of investments may go down as well as up. Changes in rates of exchange between currencies may cause the value of a Fund's investments to diminish or increase.

Emerging Markets

The following considerations, which apply to some extent to all international investment, are of particular significance in certain smaller and emerging markets. **Funds investing in equities (see *"Investment Objectives & Policies"* below) may include investments in certain smaller and emerging markets, which are typically those of poorer or less developed countries which exhibit lower levels of economic and/or capital market development, and higher levels of share price and currency volatility.** The prospects for economic growth in a number of these markets are considerable and equity returns have the potential to exceed those in mature markets as growth is achieved. However, share price and currency volatility are generally higher in emerging markets.

Some governments exercise substantial influence over the private economic sector and the political and social uncertainties that exist for many developing countries are particularly significant. Another risk common to most such countries is that the economy is heavily export oriented and, accordingly, is dependent upon international trade. The existence of overburdened infrastructures and obsolete financial systems also presents risks in certain countries, as do environmental problems. Certain economies also depend to a significant degree upon exports of primary commodities and, therefore, are vulnerable to changes in commodity prices which, in turn, may be affected by a variety of factors.

In adverse social and political circumstances, governments have been involved in policies of expropriation, confiscatory taxation, nationalisation, intervention in the securities market and trade settlement, and imposition of foreign investment restrictions and exchange controls, and these could be repeated in the future. In addition to withholding taxes on investment income, some emerging markets may impose different capital gains taxes on foreign investors.

Generally accepted accounting, auditing and financial reporting practices in emerging markets may be significantly different from those in developed markets. Compared to mature markets, some emerging markets may have a low level of regulation, enforcement of regulations and monitoring of investors' activities. Those activities may include practices such as trading on material non-public information by certain categories of investor.

The securities markets of developing countries are not as large as the more established securities markets and have substantially less trading volume, resulting in a lack of liquidity and high price volatility. There may be a high concentration of market capitalisation and trading volume in a small number of issuers representing a limited number of industries as well as a high concentration of investors and financial intermediaries. These factors may adversely affect the timing and pricing of a Fund's acquisition or disposal of securities.

Practices in relation to settlement of securities transactions in emerging markets involve higher risks than those in developed markets, in part because the Company will need to use brokers and counterparties which are less well capitalised, and custody and registration of assets in some countries may be unreliable. Delays in settlement could result in investment opportunities being missed if a Fund is unable to acquire or dispose of a security. The Custodian is responsible for the proper selection and supervision of its correspondent banks in all relevant markets in accordance with Luxembourg law and regulation.

In certain emerging markets, registrars are not subject to effective government supervision nor are they always independent from issuers. The possibility of fraud, negligence, undue influence being exerted by the issuer or refusal to recognise ownership exists, which, along with other factors, could result in the registration of a shareholding being completely lost. Investors should therefore be aware that the Funds concerned could suffer loss arising from these registration problems, and as a result of archaic legal systems a Fund may be unable to make a successful claim for compensation.

While the factors described above may result in a generally higher level of risk with respect to the individual smaller and emerging markets, these may be reduced when there is a low correlation between the activities of those markets and/or by the diversification of investments within the relevant Funds.

Investments in Russia are currently subject to certain heightened risks with regard to the ownership and custody of securities. In Russia, this is evidenced by entries in the books of a company or its registrar (which is neither an agent nor responsible to the Custodian). No certificates representing ownership of Russian companies will be held by the Custodian or any correspondent or in an effective central depositary system. As a result of this system and the lack of state regulation and enforcement, the Company could lose its registration and ownership of Russian securities through fraud, negligence or even mere oversight.

Any Fund investing directly in local Russian stock will limit its exposure to no more than 10% of its Net Asset Value, except for investment in securities listed on either the Russian Trading Stock Exchange or the Moscow Interbank Currency Exchange, which have been recognised as being regulated markets.

Sovereign Debt

Certain developing countries are especially large debtors to commercial banks and foreign governments. Investment in debt obligations ("Sovereign Debt") issued or guaranteed by developing governments or their agencies and instrumentalities ("governmental entities") involves a high degree of risk. The governmental entity that controls the repayment of Sovereign Debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to

which a governmental entity may be subject. Governmental entities may also be dependent on expected disbursements from foreign governments, multilateral agencies and others abroad to reduce principal and interest arrearage on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debt on a timely basis. Consequently, governmental entities may default on their Sovereign Debt. Holders of Sovereign Debt, including a Fund, may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which Sovereign Debt on which a governmental entity has defaulted may be collected in whole or in part.

Restrictions on Foreign Investment

Some countries prohibit or impose substantial restrictions on investments by foreign entities such as a Fund. As illustrations, certain countries require governmental approval prior to investments by foreign persons, or limit the amount of investment by foreign persons in a particular company, or limit the investment by foreign persons in a company to only a specific class of securities which may have less advantageous terms than securities of the company available for purchase by nationals. Certain countries may restrict investment opportunities in issuers or industries deemed important to national interests. The manner in which foreign investors may invest in companies in certain countries, as well as limitations on such investments, may have an adverse impact on the operations of a Fund. For example, a Fund may be required in certain of such countries to invest initially through a local broker or other entity and then have the share purchases reregistered in the name of the Fund. Re-registration may in some instances not be able to occur on a timely basis, resulting in a delay during which a Fund may be denied certain of its rights as an investor, including rights as to dividends or to be made aware of certain corporate actions. There also may be instances where a Fund places a purchase order but is subsequently informed, at the time of re-registration, that the permissible allocation to foreign investors has been filled, depriving the Fund of the ability to make its desired investment at the time. Substantial limitations may exist in certain countries with respect to a Fund's ability to repatriate investment income, capital or the proceeds of sales of securities by foreign investors. A Fund could be adversely affected by delays in, or a refusal to grant any required governmental approval for repatriation of capital, as well as by the application to the Fund of any restriction on investments. A number of countries have authorised the formation of closed-end investment companies to facilitate indirect foreign investment in their capital markets. Shares of certain closedend investment companies may at times be acquired only at market prices representing premiums to their net asset values. If a Fund acquires shares in closed-end investment companies, shareholders would bear both their proportionate share of expenses in the Fund (including management fees) and, indirectly, the expenses of such closed end investment companies. A Fund also may seek, at its own cost, to create its own investment entities under the laws of certain countries.

Fixed Income Transferable Securities

Debt securities are subject to both actual and perceived measures of creditworthiness. The "downgrading" of a rated debt security or adverse publicity and investor perception, which may not be based on fundamental analysis, could decrease the value and liquidity of the security, particularly in a thinly traded market.

A Fund may be affected by changes in prevailing interest rates and by credit quality considerations. Changes in market rates of interest will generally affect a Fund's asset values as the prices of fixed rate securities generally increase when interest rates decline and decrease when interest rates rise. Prices of shorter-term securities generally fluctuate less in response to interest rate changes than do longer-term securities.

An economic recession may adversely affect an issuer's financial condition and the market value of high yield debt securities issued by such entity. The issuer's ability to service its debt obligations may be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. In the event of bankruptcy of an issuer, a Fund may experience losses and incur costs.

Investment Grade

The term "investment grade" defines debt securities which are rated, at the time of purchase, BBB- (Standard and Poor's or equivalent rating) or better by at least one recognised rating agency, or, in the opinion of the Investment Manager, are of comparable quality.

Non-Investment Grade

The terms "non-investment grade" or "high yield" define debt securities which are unrated or rated, at the time of purchase, BB+ (Standard and Poor's or equivalent rating) or lower by at least one recognised rating agency or, in the opinion of the Investment Manager, are of comparable quality.

Non-investment grade debt may be highly leveraged and carry a greater risk of default. In addition, non-investment grade securities tend to be more volatile than higher rated fixedincome securities, so that adverse economic events may have a greater impact on the prices of non-investment grade debt securities than on higher rated fixed-income securities.

Capital Securities

Where the term "Capital Securities" is used, it refers to subordinated fixed income transferable securities within the meaning of Section 2.1. Appendix A "Investment and Borrowing Powers and Restrictions" that qualify for treatment as regulatory capital by regulators or are regarded by rating agencies as having both debt and equity characteristics and includes, but is not limited to, financials.

Distressed Securities

Investment in a security issued by a company that is either in default or in high risk of default ("Distressed Securities") involves significant risk. Such investments will only be made when the Investment Adviser believes it is reasonably likely that

the issuer of the securities will make an exchange offer or will be the subject of a plan of reorganisation; however, there can be no assurance that such an exchange offer will be made or that such a plan of reorganisation will be adopted or that any securities or other assets received in connection with such an exchange offer or plan of reorganisation will not have a lower value or income potential than anticipated when the investment was made. In addition, a significant period of time may pass between the time at which the investment in Distressed Securities is made and the time that any such exchange offer or plan of reorganisation is completed. During this period, it is unlikely that any interest payments on the Distressed Securities will be received, there will be significant uncertainty as to whether or not the exchange offer or plan of reorganisation will be completed, and there may be a requirement to bear certain expenses to protect the investing Fund's interest in the course of negotiations surrounding any potential exchange or plan of reorganisation. In addition, as a result of participation in negotiations with respect to any exchange offer or plan of reorganisation with respect to an issuer of Distressed Securities, the investing Fund may be precluded from disposing of such securities. Furthermore, constraints on investment decisions and actions with respect to Distressed Securities due to tax considerations may affect the return realised on the Distressed Securities.

Some Funds may invest in securities of issuers that are encountering a variety of financial or earnings problems and represent distinct types of risks. A Fund's investments in equity or fixed income transferable securities of companies or institutions in weak financial condition may include issuers with substantial capital needs or negative net worth or issuers that are, have been or may become, involved in bankruptcy or reorganisation proceedings.

Smaller Capitalisation Companies

Securities of smaller capitalisation companies may, from time to time, and especially in falling markets, become illiquid and experience short-term price volatility and wide spreads between bid and offer prices. Investment in smaller capitalisation companies may involve higher risk than investment in larger companies.

The securities of smaller companies may be subject to more abrupt or erratic market movements than larger, more established companies or the market average in general. These companies may have limited product lines, markets or financial resources, or they may be dependent on a limited management group. Full development of those companies takes time. In addition, many small company stocks trade less frequently and in smaller volume, and may be subject to more abrupt or erratic price movements than stocks of large companies. The securities of small companies may also be more sensitive to market changes than the securities of large companies. These factors may result in above-average fluctuations in the Net Asset Value of a Fund's Shares.

Funds investing in specific sectors or technologies

Investment is made in a limited number of market sectors and therefore these Funds may be more volatile than other more diversified Funds and may be subject to rapid cyclical changes in investor activity. In particular, certain Funds may have exposure to technology stocks. Investments in securities of technology related companies present certain risks that may not exist to the same degree as in other types of investments and tend to be relatively more volatile. Technology-related investments may include smaller and less seasoned companies. Such companies may have limited product lines, markets, or financial resources, or may depend on a limited management group. The companies in which the Funds concerned may invest are also strongly affected by worldwide scientific or technological developments, and their products may rapidly fall into obsolescence.

The share price gains of many companies involved in the alternative energy and energy technology sectors in the recent past have been significantly greater than those experienced by equity markets as a whole. Consequently, the shares of many alternative energy and energy technology focused companies are now valued, using certain valuation criteria, at a substantial premium to the average for equity markets in general. There can be no assurance or guarantee that current valuations of alternative energy and energy technology focused companies are sustainable.

Competition between technology companies is intense, and profit margins can be small or non-existent. In fact, many technology companies operate at substantial losses with no prospect for profit in the foreseeable future. For these reasons, investment in such companies by a Fund may be considered speculative.

With regard to Funds that invest in asset-based securities, while the market price for an asset-based security and the related natural resource asset generally are expected to move in the same direction, there may not be perfect correlation in the two price movements. Asset-based securities may not be secured by a security interest in or claim on the underlying natural resource asset. The asset-based securities in which a Fund may invest may bear interest or pay preferred dividends at below market rates and, in some instances, may not bear interest or pay preferred dividends at all.

Certain asset-based securities may be payable at maturity in cash at the stated principal amount or, at the option of the holder, directly in a stated amount of the asset to which it is related. In such instance, a Fund would endeavour to sell the asset-based security in the secondary market prior to maturity if the value of the stated amount of the asset exceeds the stated principal amount and thereby realise the appreciation in the underlying asset.

A Fund investing in financial services companies is more vulnerable to price fluctuations of financial services companies and other factors that particularly affect financial services industries than a more broadly diversified mutual fund. In particular, the prices of stock issued by many financial services companies have historically been more closely correlated with changes in interest rates than other stocks. Generally, when interest rates go up, stock prices of these companies go down. This relationship may not continue in the future.

Delayed Delivery Transactions

Funds that invest in fixed income transferable securities may purchase "To Be Announced" securities ("TBAs"). This refers to the common trading practice in the mortgage-backed

securities market in which a security is to be bought from a mortgage pool (Ginnie Mae, Fannie Mae or Freddie Mac) for a fixed price at a future date. At the time of purchase the exact security is not known, but the main characteristics of it are specified. Although the price has been established at the time of purchase, the principal value has not been finalised. Purchasing a TBA involves a risk of loss if the value of the security to be purchased declines prior to the settlement date. Risks may also arise upon entering into these contracts from the potential inability of counterparties to meet the terms of their contracts.

Although the Funds will generally enter into TBA purchase commitments with the intention of acquiring securities, the Funds may also dispose of a commitment prior to settlement if it is deemed appropriate to do so. Proceeds of TBA sales are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities, or an offsetting TBA purchase commitment (deliverable on or before the sale commitment date), are held as cover for the transaction.

If the TBA sale commitment is closed through the acquisition of an offsetting purchase commitment, the Fund realises a gain or loss on the commitment without regard to any unrealised gain or loss on the underlying security. If the Fund delivers securities under the commitment, the Fund realises a gain or loss from the sale of the securities upon the unit price established at the date the commitment was entered into.

Hedged Share Classes

The hedging strategies applied will vary on a fund by fund basis. Unless otherwise stated, Funds will apply a hedging strategy which aims to reduce the risk of currency movements between the Base Currency and the currency of the Hedged Share Class by hedging the Net Asset Value of the Fund attributable to such Hedged Share Class into the currency of the Hedged Share Class.

The Global Allocation Fund applies a hedging strategy which aims to reduce the risk of currency movements between the currency of the Hedged Share Class and the major currency exposure in the Fund, which is US dollars.

While the Fund or its authorised agent may attempt to hedge currency risks, there can be no guarantee that it will be successful in doing so and it may result in mismatches between the currency position of the Fund and the Hedged Share Class. The objective of these strategies is to mitigate major sources of currency risk, while taking account of practical considerations including transaction costs.

The hedging strategies may be entered into whether the Base Currency is declining or increasing in value relative to the relevant currency of the Hedged Share Class and so, where such hedging is undertaken it may substantially protect investors in the relevant Class against a decrease in the value of the Base Currency relative to the Hedged Share Class currency, but it may also preclude investors from benefiting from an increase in the value of the Base Currency.

All gains/losses or expenses arising from hedging transactions are borne separately by the shareholders of the respective Hedged Share Classes. Given that there is no segregation of liabilities between Share Classes, there is a remote risk that, under certain circumstances, currency hedging transactions in relation to one Share Class could result in liabilities which might affect the Net Asset Value of the other Share Classes of the same Fund.

Derivatives - General

In accordance with the investment limits and restrictions set out in Appendix A, each of the Funds may use derivatives to hedge market and currency risk, and for the purposes of efficient portfolio management.

The use of derivatives may expose Funds to a higher degree of risk. In particular, derivative contracts can be highly volatile, and the amount of initial margin is generally small relative to the size of the contract so that transactions are geared. A relatively small market movement may have a potentially larger impact on derivatives than on standard bonds or equities.

Derivatives – Bond, Mixed Funds and certain Equity Funds

In addition to the above, the Funds may use derivatives to facilitate more complex efficient portfolio management techniques. In particular this may involve:

- using swap contracts to adjust interest rate risk;
- using currency derivatives to buy or sell currency risk;
- writing covered call options to generate additional income;
- using credit default swaps to buy or sell credit risk; and
- using volatility derivatives to adjust volatility risk.

The use of credit default swaps carries a higher risk than investing in bonds directly. A credit default swap allows the transfer of default risk. This allows investors to effectively buy insurance on a bond they hold (hedging the investment) or buy protection on a bond they do not physically own in the expectation that the credit will decline in quality. One party, the protection buyer, makes a stream of payments to the seller of protection, and a payment is due to the buyer in the event that there is a "credit event" (a decline in credit quality, which will be pre-defined in the agreement). If the credit event does not occur the buyer pays all the required premiums and the swap terminates on maturity with no further payments. The risk of the buyer is therefore limited to the value of the premiums paid.

The market for credit default swaps may sometimes be more illiquid than bond markets. A Fund entering into credit default swaps must at all times be able to meet the redemption requests. Credit default swaps are valued on a regular basis according to verifiable and transparent valuation methods reviewed by the Company's auditor.

The volatility of a security (or basket of securities) is a statistical measure of the speed and magnitude of changes in the price of a security (securities) over defined periods of time. Volatility derivatives are based on an underlying basket of shares, and Funds may use volatility derivatives to increase or reduce volatility risk, in order to express an investment view on the change in volatility, based on an assessment of expected developments in underlying securities markets. For example, if

a significant change in the market background is expected, it is likely that the volatility of securities prices will increase as prices adapt to the new circumstances.

The Funds may only buy or sell volatility derivatives which are based on an index where:

- the composition of the index is sufficiently diversified;
- the index represents an adequate benchmark for the market to which it refers; and
- it is published in an appropriate manner.

The price of volatility derivatives may be highly volatile, and may move in a different way to the other assets of the Fund, which could have a significant effect on the Net Asset Value of a Fund's Shares.

Risk to Capital Growth

Certain Funds may make distributions from capital as well as income or pursue certain investment strategies in order to generate income. Whilst this might allow more income to be distributed, it may also have the effect of reducing the potential for long-term capital growth.

Excessive Trading Policy

The Funds do not knowingly allow investments that are associated with excessive trading practices, as such practices may adversely affect the interests of all shareholders. Excessive trading includes individuals or groups of individuals whose securities transactions seem to follow a timing pattern or are characterised by excessively frequent or large trades.

Investors should, however, be aware that the Funds may be utilised by certain investors for asset allocation purposes or by structured product providers, which may require the periodic re-allocation of assets between Funds. This activity will not normally be classed as excessive trading unless the activity becomes, in the opinion of the Directors, too frequent or appears to follow a timing pattern.

As well as the general power of Directors to refuse subscriptions or conversions at their discretion, powers exist in other sections of this Prospectus to ensure that shareholder interests are protected against excessive trading. These include:

- fair value pricing – Appendix B paragraph 15;
- price swinging – Appendix B paragraph 16(c);
- in-specie redemptions – Appendix B paragraphs 22-23; and
- conversion charges – Appendix B paragraphs 18-20.

In addition, where excessive trading is suspected, the Funds may:

- combine Shares that are under common ownership or control for the purposes of ascertaining whether an individual or a group of individuals can be deemed to be involved in excessive trading practices. Accordingly, the Directors reserve the right to reject any application for switching and/or subscription of Shares from investors whom they consider to be excessive traders;
- adjust the Net Asset Value per Share to reflect more accurately the fair value of the Funds' investments at the point of valuation. This will only take place if the Directors believe that movements in the market price of underlying securities mean that in their opinion, the interests of all shareholders will be met by a fair price valuation; and
- levy a redemption charge of 2% of the redemption proceeds to shareholders whom the Directors, in their reasonable opinion, suspect of excessive trading. This charge will be made for the benefit of the Funds, and affected shareholders will be warned in advance if such a fee is likely to be charged.

Investment Objectives & Policies

Investors must read the Special Risk Considerations section above before investing in any of the following Funds. There can be no assurance that the objectives of each Fund will be achieved.

Each Fund is managed separately and in accordance with the investment and borrowing restrictions specified in Appendix A. Unless defined otherwise in the individual investment policies of the Funds, the following definitions, investment rules and restrictions apply to all Funds of the Company:

- Where an individual investment policy of a Fund refers to 70% of its total net assets being invested in a specific type or range of investments, the remaining 30% of the total net assets may be invested in financial instruments of companies or issuers of any size in any sector of the economy globally, unless the individual investment policy of such Fund contains further restrictions. Where an individual investment policy of a Bond Fund refers to 70% of its total net assets being invested in a specific type of investments, such Bond Fund may, within the remaining 30% of its total net assets, invest up to 30% of its total net assets in money market instruments, up to 25% of its total net assets in convertible bonds and bonds with warrants attached and up to 10% of its total net assets in equities.
- Where an investment policy requires a particular percentage to be invested in a specific type or range of investments, such requirement will only apply under normal market conditions and is subject to liquidity and/or market risk hedging considerations arising from the issuance, switching or redemption of Shares.
- Funds may hold cash and near-cash instruments on an incidental basis.
- Funds may use derivative instruments (including those on foreign exchange) as provided for in Appendix A.
- Unless specifically stated to the contrary, the currency exposure of the Funds will normally be left unhedged.
- Where the term "Europe" is used, it refers to all European countries including the UK, Eastern Europe and former Soviet Union countries.

- Where the term "Greater China" is used, it refers to the People's Republic of China, Hong Kong and Taiwan.

- Funds investing globally or in Europe (including the BRIC Fund) may contain investments in Russia, subject always to the 10% limit referred to in the "Emerging Markets" section above except for investment in securities listed on either the Russian Trading Stock Exchange or the Moscow Interbank Currency Exchange, which have been recognised as being regulated markets.

- For the purpose of these investment objectives and policies all references to "transferable securities" shall include "money market instruments and both fixed and floating rate instruments".

- Where a Fund invests in initial public offerings or new debt issues, the prices of securities involved in initial public offerings or new debt issues are often subject to greater and more unpredictable price changes than more established securities.

- Funds which include "Absolute Returns" in their title or investment objective and policy seek to achieve positive returns, however, this should not be interpreted to mean or imply that an absolute return is guaranteed, as there can be circumstances where negative returns are generated.

The ***Asian Dragon Fund*** seeks to maximise total return expressed in US dollars. The Fund invests at least 70% of its total net assets in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, developing markets located in Asia. The Fund will not invest in Japan.

The ***Asian Tiger Bond Fund*** seeks to maximise total return expressed in US dollars. The Fund invests at least 90% of its total net assets in fixed income transferable securities, and at least 70% of its total net assets in the fixed income transferable securities of issuers domiciled in, or exercising the predominant part of their economic activity in, designated "Asian Tiger Countries". These countries include South Korea, the People's Republic of China, Taiwan, Hong Kong, the Philippines, Thailand, Malaysia, Singapore, Vietnam, Cambodia, Laos, Myanmar and Indonesia. The Fund may invest in high yield fixed income transferable securities. The Fund may also invest in fixed income transferable securities that are the subject of bankruptcy proceedings or otherwise in payment default or in significant risk of being in payment default at the time of purchase. The currency exposure of the Fund is flexibly managed.

The ***Asia-Pacific Real Estate Securities Fund*** seeks to maximise total return. The Fund invests at least 70% of its total net assets in the equity and debt securities of property companies domiciled in, or exercising the predominant part of their economic activity in, Asia-Pacific including Japan and Australasia.

The ***BRIC Fund*** seeks to maximise total return expressed in US dollars. The Fund invests at least 70% of its total net assets in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, Brazil, Russia, India or Greater China.

The ***Conservative Allocation Fund (Euro)*** follows an asset allocation policy, with the principal objective of managing volatility of capital value, subject to which the Fund seeks to maximise total return expressed in euro. The Fund invests globally in fixed income transferable securities (which may include some high yield fixed income transferable securities) and may also invest to a lesser extent in equities. Total return may be derived from either capital or income. The Fund may invest without limitation in securities denominated in currencies other than the reference currency (euro). The currency exposure of the Fund is flexibly managed.

The ***Conservative Allocation Fund (US Dollar)*** follows an asset allocation policy, with the principal objective of managing volatility of capital value, subject to which the Fund seeks to maximise total return expressed in US dollars. The Fund invests globally in fixed income transferable securities (which may include some high yield fixed income transferable securities) and may also invest to a lesser extent in equities. Total return may be derived from either capital or income. The Fund may invest without limitation in securities denominated in currencies other than the reference currency (US dollars). The currency exposure of the Fund is flexibly managed.

The ***Continental European Flexible Fund*** seeks to maximise total return expressed in euro. The Fund invests at least 70% of its total net assets in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in Europe excluding the UK.

The ***Dynamic Reserve Fund*** seeks to achieve an absolute return. The Fund invests at least 70% of its total net assets in fixed income transferable securities denominated in US Dollars issued by governments, agencies and companies worldwide. Currency exposure is flexibly managed.

The ***Emerging Europe Fund*** seeks to maximise total return expressed in euro. The Fund invests at least 70% of its total net assets in the equity securities of companies domiciled in, or exercising the predominant part of their economic activity in, developing European countries. It may also invest in companies domiciled in and around, or exercising the predominant part of their economic activity in and around, the Mediterranean region.

The ***Emerging Markets Bond Fund*** seeks to maximise total return expressed in US dollars. The Fund invests at least 90% of its total net assets in fixed income transferable securities, and at least 70% of its total net assets in the fixed income transferable securities of governments, agencies and companies domiciled in, or exercising the predominant part of their economic activity in, developing markets. The Fund may invest in both sub-investment grade and investment grade fixed income transferable securities. The Fund may also invest in fixed income transferable securities that are the subject of bankruptcy proceedings or otherwise in payment default or in significant risk of being in payment default. This will normally be on a limited basis and will not exceed 20% of total net assets at the time of purchase. The Fund may invest in fixed income transferable securities denominated in currencies other than US dollars. Currency exposure is flexibly managed.

The ***Emerging Markets Fund*** seeks to maximise total return expressed in US dollars. The Fund invests globally at least 70%